

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 820</u>	Assembly PER&SS Committee (As amended 1/3/00)
<u>Position:</u>	Support, if amended
<u>Proponents:</u>	CRTA, CTA (co-sponsors)
<u>Opponents:</u>	None known

SUMMARY

AB 820 allows a member of the California State Teachers' Retirement System (CalSTRS) to redeposit a portion of previously refunded member-employee contributions. The bill allows the Teachers' Retirement Board (Board) to waive specified provisions concerning option allowances if the Board determines that (1) fewer than 100 individuals would be affected and (2) the waiver would have no material effect on the Teachers' Retirement Fund (TRF).

HISTORY

Chapter 569, Statutes of 1997 (SB 1027–Schiff) authorized CalSTRS members to redeposit contributions withdrawn by a nonmember spouse.

Chapter 1076, Statutes of 1998 (SB 2126–Schiff) allowed members 10 years to redeposit withdrawn member-employee contributions.

SUMMARY OF LATEST AMENDMENTS

The January 3rd amendments deleted provisions that made purchasing power payments from the Supplemental Benefit Maintenance Account (SBMA) and School Lands funds on a monthly basis.

CURRENT PRACTICE

Partial Redeposit of Previously Refunded Contributions

Under existing law, a member may elect to redeposit previously refunded retirement contributions, along with regular interest from the date of refund to the date of redeposit. If a member chooses to redeposit contributions, the entire amount previously withdrawn must be redeposited. If the member fails to redeposit the full amount previously withdrawn, CalSTRS refunds the partial amount redeposited.

Under federal law, members who elect to pay for a redeposit using an irrevocable pre-tax payroll deduction must pay the full amount of the amount being redeposited, unless employment is terminated. If the member terminates employment while paying for a redeposit using a pre-tax payroll deduction, the member is permitted to continue making payments using post-tax dollars, or make arrangements with the new employer and continue the redeposit using pre-tax dollars.

Waiver of Options Provisions

Under the Teachers' Retirement Law (TRL), a member may elect one of seven options at or before retirement, under certain circumstances, to provide ongoing benefits to his or her designated beneficiaries upon the member's death.

The TRL includes a number of provisions affecting such options. These include provisions that:

1. Permit members to revoke or change an option election prior to retirement
2. Prohibit a change in a disability retirement option election after retirement
3. Permit the cancellation of an option after a divorce
4. Provide for actuarial modifications of allowances if options are cancelled or changed
5. Impose deadlines for making option elections
6. Establish specific windows for modifying an option election without a reduction in an allowance.

DISCUSSION

Partial Redeposit of Previously Refunded Contributions

Under AB 820, a member may elect to redeposit a portion of contributions previously refunded by the system and, subject to Board-imposed requirements, the member would receive pro rata service credit for those redeposited contributions.

The CalSTRS Public Service Office processes approximately 6,000 requests for redeposits per year. The billing statement is prepared for each request, which provides the member a written estimate of the total cost of the redeposit. Preparing this statement takes approximately one hour. Staff anticipates that there will be an increase in this workload for the first six months of the new law. Some members, who are limited under current law to redepositing the full amount of withdrawn contributions are expected to request a billing of the redeposit cost of the more affordable partial portion of service credit. After the first six months, the level of requests for billing statements should level off, but probably at a higher level than the current 6,000 requests per year.

CalSTRS staff explored a number of methodologies for determining the cost of redeposited service credit and identified the methodology that would be the most cost-effective and fairest to CalSTRS' membership.

Consider, for example, a member who worked between 1987 and 1990, terminated service and received a refund for those contributions, plus interest. If a member wishes to

redeposit, for example, two years out of the three year period, the member would pay 2/3 of contributions refunded, plus interest from the date of the refund to the date of redeposit. If the member subsequently wanted to purchase the remaining year, the member would pay an additional amount equal to the total refunded contributions, including interest from the date of refund to the date of the second redeposit, minus the amount paid in the first redeposit.

Waiver of Options Provisions

The bill is intended to allow the Board to waive option provisions under two conditions: (1) fewer than 100 individuals would be affected and (2) the waiver would have no material effect on the TRF.

CalSTRS staff have identified numerous issues with this provision which may result in additional costs to the TRF and/or create inequities to members. These issues include:

- The Board may not be in a position to know ahead of time how many individuals might be affected from waiving a particular option provision. Furthermore, it is not clear what action the Board could take if the number of affected individuals ultimately exceeds 100 either at the time the waiver is granted or over a multi-year period for the same waiver.
- Authorizing the Board to waive option provisions could create inequities between members who are vocal and those who are not. Presumably, the Board's fiduciary responsibility would require the Board to notify the membership about the waiver. This could result in other members coming forward to seek the same waiver, resulting in over 100 individuals being affected.

Due to the aforementioned concerns, the Board seeks amendments to delete the options waiver provision.

FISCAL IMPACT

Benefit Program Costs –

Partial Redeposits

Permitting partial redeposits of service credit would have a minor net actuarial impact on the TRF, depending upon the level of participation by CalSTRS' membership. Any impact would consist mainly of the increased liability for benefits associated with the repurchased service. This liability would be financed both by the contributions redeposited by the member and the employer contributions that remained in the TRF when the member made the initial withdrawal.

Waiver of Options Provisions

The bill limits the Board's authority to waive only those provisions that have no material effect on the TRF. A material effect is defined in this bill as a cost in excess of one thousandth of one per cent of the TRF. In a \$100 billion portfolio, this amount would represent about \$10 million.

Administrative Costs –

Partial Redeposits

The System anticipates an increased workload as more members request refund billings and set up accounts for the partial redeposits. A 50 percent increase in requests for redeposits could require one additional personnel year, at approximately \$50,000 per year. CalSTRS would incur one-time costs to modify system database and software.

Waiver of Options Provisions

The system could incur minor costs to develop and implement waivers of options provisions.

POSITION

Support, if amended. The provisions of AB 820 related to partial redeposits should be clarified to specify the methodology for calculating redeposit amounts. The Board waiver of options provisions should be deleted because it could create inequities among members otherwise similarly situated.

